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RHMFIUU/DEPT OF HOMELAND SECURITY WASHINGTON DC IMMEDIATE
RUEHIN/AIT TAIPEI IMMEDIATE 7441
INFO RUEHOO/CHINA POSTS COLLECTIVE IMMEDIATE
RUEHUL/AMEMBASSY SEOUL IMMEDIATE 1441
RUEHKO/AMEMBASSY TOKYO IMMEDIATE 0156

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SENSITIVE
SIPDIS

STATE FOR EAP/CM - WKELIN, SFLATT
STATE FOR EEB/CIP - SFLYNN, FSAEED
USTR FOR AWINTER, TWINELAND, JGRIER, JMCHALE
COMMERCE FOR ITA - IKASOFF, NMELCHER, JWU
DOJ FOR CCIPS - MDUBOSE, SCHEMTOB
FBI FOR LBYRANT
STATE FOR WHITE HOUSE OSTP AMBASSADOR RICHARD RUSSEL
NSC FOR MHATHAWAY

E.O. 12958: N/A
TAGS: [ECON](#) [ETRD](#) [PGOV](#) [EINV](#) [CH](#)
SUBJECT: INDIGENOUS INNOVATION - KEY MINISTRY CLAIMS TO BE
PREPARING PUBLIC RESPONSE

REF: A. SECSTATE 124680
[1](#)B. BEIJING 3379
[1](#)C. BEIJING 3296
[1](#)D. BEIJING 3209

[1](#)1. (SBU) Summary. Embassy delivered Ref A demarche to Ministry of Science and Technology (MOST), December 18, regarding the joint MOST, Ministry of Finance, and National Development and Reform Commission Circular 618 creating a national accreditation system for indigenous innovation. MOST officials echoed earlier arguments that promoting "indigenous innovation" did not equate to discrimination against foreign companies or products, but stressed that the catalogue system was still being developed and they were open to adjusting it based on input from foreign companies and other concerned parties. (Comment: Despite this seemingly positive tone, the fact that MOST has to date denied industry associations' requests for meetings casts doubt on MOST's openness to industry input. End comment.) MOST also noted it is preparing a public response to international pressure brought by industry and governments, but did not offer timing. End Summary.

[1](#)2. (SBU) December 18, Acting Econ Minister Counselor Forden and MAC Director Howes delivered Ref A demarche to Ministry of Science and Technology (MOST) Director Americas Division Wang and Department of Development and Planning Director Liu. MOST has been the most recalcitrant of ministries in our attempt to deliver and discuss the joint MOST, Ministry of Finance (MOF), and National Development and Reform Commission (NDRC) Circular 618 (dated November 17, 2009) creating an accreditation system for national indigenous innovation. (Please see Refs B and C for additional demarche reports and Ref D for originating reporting on the China's National Indigenous Innovation Accreditation system.) Explaining the demarche had already been passed from Ambassador Huntsman to the Ministers of MOST, NDRC, and MOF, Forden and Howes noted strong concern evidenced by the escalating interest in this issue from international industry and foreign missions and noted additional increased high-level governmental pressure would follow unless a workable solution is found to address concerns over the accreditation system.

13. (SBU) Wang and Liu offered a number of shifting arguments in an attempt to justify the system. While calling the system "nondiscriminatory" because it allows entities of any national background to apply, they did not address the fact that criteria de facto exclude products, including those based on foreign-derived intellectual property from receiving accreditation. Wang stated that MOST's budget to promote innovative collaboration had increased several-fold since 2007's Rmb 27 million (USD 4 million), and sought to justify the accreditation system by claiming many other MOST measures to promote indigenous innovation did not raise discriminatory national treatment concerns. Wang and Liu also sought to justify the accreditation system by claiming it was in a "trial phase" that is still in development and offered to remain open to input and consultation regarding how to modify the accreditation system. (Comment: today's meeting with MOST took inordinate amounts of effort to obtain and was originally scheduled at the Director General-level. The last minute switch to a lower-level suggests MOST's claims to desire engagement on resolution is disingenuous. End comment.) Director Wang noted MOST is preparing a public response to the numerous letters and demarches that the PRC has received recently on this issue, but did not offer specific timing.

14. (SBU) On another tack, ECON and FCS met December 17 with more than 30 reps from companies and industry associations (USCBC, AmCham, USITO) to discuss next steps on Circular 618. We heard strong consensus in support of continuing a broad-based effort to suspend implementation of the indigenous innovation accreditation system. Firms that may

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be directly affected, such as Cummins, GE, and Microsoft were on board, as were component supplier firms such as Tyco, ABB, and Dow Chemical. All of them expressed deep concern that if indigenous innovation policies move forward as currently understood, their business here would be severely affected.

15. (SBU) There is also growing realization that two of the core high-tech fields eligible for accreditation (1. new energy and equipment and 2. highly-energy efficient products) will increase difficulties for major energy players, such as GE and the automobile industry, given clear trends to promote green technology and energy-efficient vehicles by the Chinese government. All members said FIEs here are defacto excluded from the indigenous innovation system as currently understood, given the IP and Trademark local origin requirements. They also questioned how "innovation" is supported by the "TM" requirement, given that is a branding tool with little or no relation to innovation. Industry also raised concern over negative local media reporting attempting portraying the system as a "David v Goliath" battle with the U.S. and noted local citizen interest has not percolated up in support of international concerns, remaining sympathetic thus far with the PRC's efforts on behalf of China.

16. (SBU) Our foreign mission colleagues additionally have recently reported the following developments: EU Commission Head of Delegation Serge Abou sent a letter to MOST/MOF/NDRC Ministers on December 15. Then Japanese Embassy in Beijing's Econ MC sent letters to MOST/NDRC/MOF expressing concern and requesting meetings, but has yet to receive appointments. The UK Ambassador is writing to MOFCOM this week on market access issues, and has been requested by his Econ Team to include points on indigenous innovation. The Canadian Embassy reported they are still reviewing the issue. The EU Chamber also sent a letter this week to the three relevant ministers, raising a number of clarifying questions, with language protesting such an accreditation system as "sullyng China,s existing image as a highly attractive trade and investment destination."

17. (SBU) Comment. Mission China will continue to push U.S. industry stakeholders to engage with relevant PRC agencies to address concerns over the accreditation system, in hope of a

suspension of the system before longer-term practical consequences ensue for concerned industry groups. We also will continue to seek opportunities to press the message with key government agencies. Signals to date still indicate possible room for the Chinese to finesse a solution and we support crafting forward messaging to facilitate face-saving room for maneuver. End comment.
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